

Message Text

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ORIGIN AGRE-00

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DRAFTED BY FAS/ITP/TOD:FGEERKEN:STM
APPROVED BY EB/OT:SAHMAD
USDA:RSCHROETER:VSORENSEN
USDA:DNOVOTNY:JRIESZ
USDA:DDOUGLAS:RMANNION
STR:TREGAN
EB/OT/TA:JRCUNNINGHAM
EA/J:HCOCHRAN
EB/FPD:JRICHARDSON:FVAZNAUGH

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FM SECSTATE WASHDC
TO AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ETRD, EAGR, JA

SUBJECT: JAPANESE ACTIONS AFFECTING AGRICULTURAL IMPORTS
REF:A.TOKYO 16172 B. TOFAS 714

1. SUMMARY. EMBASSY REQUESTED TO EXPRESS OFFICIAL U.S. CONCERN TO APPROPRIATE JAPANESE AUTHORITIES ABOUT (1) RECENT INCREASE IN BEEF IMPORT SURCHARGE; (2) PROPOSED INCREASE IN WHEAT RESALE PRICE; (3) FLOUR MIXING REGULATIONS NOW BEFORE JAPANESE DIET; AND (4) ARTIFICIALLY HIGH PRICE OF COMPOUND FEEDS. ALL FOUR MEASURES ARE INCONSISTENT WITH MTN PRINCIPLES AND JAPAN'S EXPRESSED DESIRE TO REDUCE TRADE SURPLUS. PROPOSED FLOUR MIXING REGULATION WOULD ALSO
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BE IN CONTRAVENTION OF GATT ARTICLE III. END SUMMARY.

2. INCREASE IN BEEF IMPORT SURCHARGE. GOJ RAISED SURCHARGE ON IMPORTED BEEF ON SEPTEMBER 24, 1977. THE INCREASE FOR VARIOUS TYPES OF BEEF RANGES FROM 37 TO 76 PERCENT, AVERAGING 72 PERCENT ON CHILLED AND 52 PERCENT ON FROZEN. SINCE THEN, SEVERAL U.S. EXPORTERS HAVE EXPRESSED THE

CONCERN THAT THE INCREASES WOULD REDUCE THEIR VOLUME OF BUSINESS.

3. JAPANESE AUTHORITIES HAVE SAID THE INCREASES ARE INTENDED TO ABSORB PROFITS ACCRUING TO JAPANESE IMPORTERS RESULTING FROM YEN APPRECIATION AND RECENT DROP IN WORLD BEEF PRICES. THE INCREASE IN THE SURCHARGE WOULD THUS KEEP IMPORTED BEEF PRICES IN LINE WITH DOMESTIC PRICES. U.S. EXPORTERS FEAR THAT WITH THE SURCHARGE INCREASE, THE U.S. SHARE OF THE JAPANESE MARKET (MEASURED WITH JAPANESE IMPORT STATISTICS), WHICH DECLINED FROM 12.2 PERCENT IN 1976 TO 8.9 PERCENT FOR THE FIRST NINE MONTHS OF 1977, WILL FURTHER DETERIORATE BECAUSE OF A SHIFT TO LOW-PRICED OCEANIA BEEF.

4. ACCORDING TO U.S. CENSUS STATISTICS, U.S. EXPORTS OF ALL BEEF AND VEAL TO JAPAN ROSE FROM 11,026 TONS DURING FIRST NINE MONTHS OF 1976 TO 13,533 TONS FOR THE SAME PERIOD IN 1977. THIS INCREASE, HOWEVER, RESULTED MOSTLY FROM LARGER EXPORTS OF A BEEF CUT KNOWN AS QTE HANGING TENDERS UNQTE. WHILE THE U.S. CONSIDERS THIS CUT TO BE BEEF, THE JAPANESE CLASSIFY IT AS OFFAL. IT THEREFORE IS NOT SUBJECT TO BEEF QUOTA AND DOES NOT APPEAR IN GOJ STATISTICS AS IMPORT OF BEEF.

5. JAPANESE STATISTICS SHOW IMPORTS OF FRESH, CHILLED LIMITED OFFICIAL USE

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AND FROZEN BEEF (I.E., THAT SUBJECT TO QUOTA) AS INCREASING FROM 63,890 TONS DURING FIRST 9 MONTHS OF 1976 TO 64,031 TONS FOR SAME PERIOD IN 1977. IMPORTS FROM U.S. FOR SAME PERIODS, HOWEVER, DROPPED 26.4 PERCENT FROM 7,728 TO 5,689 TONS. DECLINE WAS MOSTLY IN EXPORTS OF CHILLED BEEF, WHICH DROPPED 70.4 PERCENT FROM 2,615 TO 775 TONS.

6. THIS YEAR THE JAPANESE ARE PURCHASING CONSIDERABLY MORE LOW-PRICED BEEF. THE AVERAGE UNIT VALUE OF IMPORTED BEEF DROPPED FROM 2.21 DOLLARS/KG. DURING FIRST NINE MONTHS OF 1976 TO 1.78 DOLLARS/KG. FOR SAME PERIOD IN 1977. DECLINE OCCURRED DESPITE LACK OF SIGNIFICANT DROP IN BEEF RETAIL MARKET PRICES. THUS, IMPORTS OF LOW-PRICED FROZEN BEEF, MOSTLY FROM OCEANIA, HAVE BEEN SUBSTITUTED FOR HIGH-QUALITY CHILLED BEEF FROM UNITED STATES. JAPANESE

IMPORTS OF AUSTRALIAN BEEF DURING FIRST NINE MONTHS OF 1977 ROSE NEARLY 2 PERCENT COMPARED WITH IMPORTS FOR SAME PERIOD YEAR EARLIER. MORE SIGNIFICANTLY, IMPORTS FROM NEW ZEALAND, MOST OF WHICH CONSISTS OF FROZEN BEEF, INCREASED BY 26 PERCENT TO 3,635 TONS DURING SAME PERIOD.

7. U.S. EXPORTERS ARE CONCERNED THAT DISCRIMINATORY NATURE OF INCREASE IN SURCHARGE MAY BRING ABOUT INCREASED PRICES IN JAPAN WHICH COULD FORCE CONTINUED SHIFT TO LOW-PRICED BEEF FROM OCEANIA AND A CONCOMITANT DECLINE IN THE QUALITY BEEF MARKET WHICH IS LARGELY SUPPLIED BY THE U.S. IN ADDITION TO POTENTIAL DAMAGE TO U.S. EXPORTS, THIS ACTION ALSO APPEARS TO BE CONTRARY TO PUBLIC ANNOUNCEMENTS REGARDING JAPANESE INTENTIONS TO LIBERALIZE IMPORTS.

8. BECAUSE OF HIGHER PERCENTAGE INCREASE IN SURCHARGE FOR CHILLED BEEF VERSUS FROZEN BEEF, IT IS EXPECTED THAT AUSTRALIA AND NEW ZEALAND WILL PROVIDE DISPROPORTIONATE SHARE OF 10,000 TON INCREASE IN IMPORT QUOTA ANNOUNCED FOR SECOND HALF OF JFY. IF THIS PROVES CORRECT, U.S. SHARE OF MARKET COULD CONTINUE TO DROP TO AS LOW AS LIMITED OFFICIAL USE

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6 PERCENT.

9. INCREASE IN WHEAT RESALE PRICES. PROPOSED INCREASE IN WHEAT RESALE PRICE IS VERY DISTURBING BECAUSE SUCH ACTION RESULTS IN A DECREASE IN DEMAND FOR WHEAT AND SUBSEQUENT DECLINE IN WHEAT IMPORTS. ANY ACTION LESSENING DEMAND FOR WHEAT AT THIS TIME WOULD BE CONTRARY TO RECENTLY ANNOUNCED INTENTION OF GOJ TO TAKE EMERGENCY MEASURES TO INCREASE IMPORTS. ALTERNATIVELY, IF END-USERS OF IMPORTED WHEAT WERE ABLE TO BENEFIT FROM CURRENT REDUCED PRICE LEVELS, WHEAT CONSUMPTION COULD BE EXPECTED TO RISE IN JAPAN. THIS WOULD LEAD TO INCREASED WHEAT IMPORTS AND WOULD HELP ALLEVIATE JAPAN'S TRADE SURPLUS. IN THIS REGARD, IT SHOULD BE NOTED ALSO THAT AT OLD RESALE PRICE JAPANESE FOOD AGENCY (FA) IS ALREADY EARNING AN ESTIMATED 33 PERCENT PROFIT.

10. FLOUR MIXING REGULATIONS. RELATED TO WHEAT RESALE PRICE PROBLEM, WE HAVE RECEIVED REPORTS THAT TO REDUCE RICE SURPLUS THE DIET IS CURRENTLY CONSIDERING A MIXING REGULATION WHICH WOULD REQUIRE FLOUR MILLERS TO BLEND 100,00 TONS OF RICE FLOUR INTO THEIR GRIST THUS DISPLACING AN EQUIVALENT AMOUNT OF IMPORTED WHEAT. THIS REGULATION WOULD BE IN CONTRAVENTION OF GATT ARTICLE III AND CONTRARY TO PRINCIPLES UNDERLYING CURRENT ROUND OF MTN'S IN GENEVA.

11. JAPAN PROPOSED OCTOBER 17 TO INCREASE WHEAT IMPORTS BY 100,000 METRIC TONS QTE TO HELP REDUCE THE NATION'S TRADE SURPLUS UNQTE. THIS ONETIME PROPOSAL, HOWEVER, WOULD NOT HAVE ANY LASTING EFFECT ON DOMESTIC CONSUMPTION. IF JAPAN'S GOAL IS TO REDUCE TRADE SURPLUS, IT SHOULD SEEK TO FURTHER INCREASE ITS WHEAT CONSUMPTION. BOTH INCREASE LIMITED OFFICIAL USE

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IN RESALE PRICE OF WHEAT AS WELL AS FLOUR MIXING REGULATION NOW BEING CONTEMPLATED WOULD HAVE OPPOSITE EFFECT, REDUCING IMPORT DEMAND AND POSSIBLY INCREASING THE TRADE SURPLUS.

12. ADMINISTRATIVELY APPROVED PRICES FOR COMPOUND FEEDS. JAPANESE USE OF GRAINS FOR FEED IS INCREASING AT VERY SLOW PACE, EVEN CONSIDERING LOW PER CAPITA CONSUMPTION OF END PRODUCTS OF LIVESTOCK FEEDING. FEED USE OF ALL GRAINS IN JAPAN REACHED ABOUT 13.2 MILLION TONS IN 1976/77 AND IS

EXPECTED TO INCREASE BY ONLY ABOUT 600,000 TONS IN 1977/78. CONSUMER ACCESS TO PRODUCTS OF LIVESTOCK FEEDING APPEARS TO BE SEVERELY LIMITED BY WHAT APPEAR TO BE HIGH RETAIL PRICE LEVELS. SOME OF HIGH LEVEL OF PRICE IS ATTRIBUTABLE TO INHERENT HIGH COSTS WITHIN DISTRIBUTION SYSTEM, BUT TO CONSIDERABLE DEGREE, HIGH FEED COSTS ALSO APPEAR TO BE AN IMPORTANT FACTOR. THERE ARE SOME INDICATIONS THAT PRICES OF COMPOUND FEED, WHICH ARE SUBJECT TO GOVERNMENT APPROVAL, REMAIN CONSIDERABLY ABOVE LEVEL NECESSARY TO COVER COSTS OF IMPORTED INGREDIENTS AND COMPOUNDING OPERATIONS. THE JAPANESE GOVERNMENT SHOULD BE ASKED TO TAKE WHATEVER MEASURES POSSIBLE TO BRING COMPOUND FEED PRICES INTO LINE WITH WORLD PRICES OF INGREDIENTS, THEREBY LOWERING COST OF COMPOUND FEED AND PERMITTING MORE RAPID GROWTH OF IMPORTS OF GRAIN FOR FEED.

13. ACTION REQUESTED. EMBASSY REQUESTED TO EXPRESS OFFICIAL U.S. CONCERN TO APPROPRIATE JAPANESE AUTHORITIES ON ALL FOUR ACTIONS DRAWING UPON PRECEDING POINTS. VANCE

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